Direct Testimony

of

Karen A. Goldberger

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

Illinois Commerce Commission
On Its Own Motion
-vs-
Illinois Power Company
Docket No. 99-0209

May 1999

WITNESS IDENTIFICATION

Q. **Please state your name and business address.**

A. My name is Karen A. Goldberger. My business address is 527 East Capitol Avenue, P.O. Box 19280, Springfield, Illinois 62794-9280.

Q. **By whom are you employed and in what capacity?**

A. I am a Senior Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission.

Q. **Please describe your background and professional affiliations.**

A. I am a licensed CPA with a Bachelor of Arts Degree in Accountancy from Sangamon State University and a Master of Arts Degree in Accountancy from the University of Illinois at Springfield and a member of the American Institute of Certified Public Accountants. I joined the staff of the Illinois Commerce Commission (Staff) in August 1993.

Q. **What is the function of the Accounting Department of the Illinois Commerce Commission?**

A. The Department's function is to monitor the financial condition of public utilities as part of the Commission's responsibilities under Article IV of the Public Utilities

Act (Act) (220 ILCS 5/4-101 et seq.) and to provide accounting expertise on matters before the Commission.

Q. **Have you previously testified before this Commission?**

A. Yes, I have.

Q. **What are your responsibilities in this case?**

A. I have been assigned to this case by the Director of the Accounting Department of the Commission. I am to review Illinois Power Company's (Company or IP) filing, and propose recommendations where appropriate.

<u>Purpose of Testimony</u>

Q. **What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to present the following comments or recommendations:

1) IP has complied with the filing requirements of Section 16-111(g)(4)(i), (ii), (iii), (iv) of the Act,

2) IP should file journal entries recording the sale in compliance with the instructions for Account 102 of the Uniform System of Accounts for Electric Utilities (USOA) (83 Ill. Adm. Code 415), and

3) IP should further address whether it is in compliance with Section 16-128 (c) and/or (d) of the Act.

Q. **On April 16, 1999, IP filed a Notice of Intent (Notice) to sell its fossil generating station assets under Section 16-111(g) of the Act. What factors did the Commission consider prior to initiating this docket regarding the proposed sale?**

A. Illinois Power Company filed a Notice of Intent to sell its fossil generating station assets to Illinova Corporation (Illinova). Illinova will then transfer the assets to WESCO, which is a wholly-owned subsidiary of Illinova. The generating capacity of the fossil stations is about 80% of the Company's net dependable generating capacity (Staff Report, April 20, 1999). Section 16-111(g)(vi) states that when an electric utility sells generating plant that brings the amount of net dependable generating capacity transferred to an amount equal to or greater than 15% of its net dependable generating capacity, the Commission may issue an order to initiate a hearing on the proposed transaction. On April 21, 1999, this proceeding was initiated to determine whether the proposed sale of the assets should be approved or prohibited.

<u>Compliance with Section 16-111(g)(4)(i), (ii), (iii), (iv)</u>

Q. **Section 16-111(g)(4), in subparagraphs (i) through (iv), defines certain filing requirements to be included in the Notice. Did the Company comply with the filing requirements required by Section 16-111(g)(4)(i), (ii), (iii), (iv)?**

A. Yes. Section 16-111(g)(4)(i) requires the Company to provide a complete statement of the accounting entries it will make on its books to record the sale of the assets and a certificate from an independent CPA stating the entries are in accordance with Generally Accepted Accounting Principles (GAAP). If the transaction is with an affiliate, this subparagraph also requires a certification from the Company’s chief accounting officer that the accounting entries are in accord with any cost allocation guidelines that have been previously approved by the Commission. The Company’s filing provided the accounting entries and a statement from PricewaterhouseCoopers LLP stating the entries (dollar amounts were not reviewed) are in accordance with GAAP. The filing also included a certification that the entries were in accordance with the guidelines for transactions between IP and Illinova as approved by the Commission in Docket No. 94-0005.

Subparagraph (ii) requires a description of how the Company will use the proceeds to reduce debt or to recover the cost of services provided by the utility. The Company’s filing includes a statement of the use of the proceeds and states IP will use the entire amount of the proceeds to re-capitalize, primarily by buying back existing debt and preferred securities.

Subparagraph (iii) requires a list of all other State and federal approvals the utility has obtained or will obtain. The Company provided the list of approvals it will need from the Federal Energy Regulatory Commission and the Securities and Exchange Commission.

Subparagraph (iv) requires an irrevocable commitment that the sale will not increase transition charges it might otherwise be allowed to recover under Article XVI of the Act or impose any stranded costs that it might otherwise be allowed to charge its retail customers under federal law. The Company provided an irrevocable commitment stating it will not increase the transition charges, otherwise allowed under Article XVI, or impose any stranded costs, otherwise allowed by the federal government.

In my opinion, the Company has provided the information required by the various subparagraphs of Section 16-111(g)(4) as discussed above.

Compliance with Instructions of Account 102 of the USOA

Q. **Do you have any comments regarding the journal entries recording the sale of the assets?**

A. Yes. Account 102 “Electric plant purchased or sale” of the USOA (83 Ill. Adm. Code 415) states, “A. This account shall be charged with the cost of electric plant acquired an as an operating unit …and shall be credited with the selling price of like property….B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.” Therefore, the Company should file the journal entries recording the sale with the Commission in accordance with the instructions for Account 102 of the USOA, and Staff requests the entries also be provided to the Director of Accounting.

Q. **If the Company provided the journal entries in this filing, why are you recommending the Company file the journal entries with the Commission in accordance with the instructions for Account 102?**

A. The journal entries provided by the Company in its filing, and reviewed by PricewaterhouseCoopers for conformity with GAAP, are illustrative journal entries which present the accounts and description in which the sale will be recorded, but not the dollar amounts. The instructions for Account 102 require the dollar amounts to be provided in the filing with the Commission. Therefore, I am recommending the Company file the journal entries with the dollar amounts in conformity with the instructions in Account 102 of the USOA.

Compliance with Section 16-128

Q. **Section 16-111(g) also states the utility must comply with Section 16-128 subsections (c) and/or (d), if applicable. What are the requirements of Section 16-128 (c) and (d)?**

A. Subsection (c) of Section 16-128 requires that if a generating plant is sold during the mandatory transition period, the acquiring entity must hire enough non-supervisory personnel to maintain and operate the station(s) by first offering present employees a position at no less than the wage rate and substantially equivalent fringe benefits and terms and conditions of employment that are in effect at the time of transfer of ownership. The wages and benefits must continue for no less than 30 months from the time of the sale. Both parties are allowed to agree to other terms during the 30-month period as long as the agreement is mutual. If the acquiring entity needs fewer employees, the utility must offer a transition plan to those employees not hired. Subsection (d) states that if the transfer is to a majority-owned subsidiary, the subsidiary shall continue to employ the same employees under the same terms and conditions of employment. If the subsidiary subsequently sells to a third party during the transition period, then the transition provisions in subsection (c) apply.

Q. **Do either subsection (c) or (d) of Section 16-128 apply to this transaction?**

A. Yes. Subsection (d) applies because the sale applies to a majority-owned subsidiary.

Q. **Has the Company met the requirements of Section 16-128(d)?**

A. The Company's filing partially complies with Section 16-128(d). IP Exhibit 1.1, pages 10-12, sponsored by Company witness Alec G. Dreyer, states that management and union employees at each of the power stations, support staff involved with fossil generation at IP headquarters, regional power plant services employees, and employees at the energy center involved with wholesale energy transactions, will become employees of WESCO. The Exhibit also states the associated collective bargaining agreements will be assumed by WESCO.

Although the Company stated that all the employees will become employees of WESCO and that the collective bargaining agreements will be assumed by WESCO, it has not stated that non-union personnel will be transferred to WESCO under the same terms and conditions of employment as they are currently employed under by IP. I recommend that the Company also include such reassurances in the record in this proceeding as required by Section 16-128(d).

<u>Conclusion</u>

Q. **Please summarize your comments and recommendations.**

A. My conclusions are as follows:

1) The Company has complied with the filing requirements in Section 16-111(g)(4), subparagraphs (i) through (iv).

2) The Company should comply with the instructions for Account 102 of the USOA by filing with the Commission the journal entries that record the sale, showing the dollar amounts. The journal entries should be provided to the Director of Accounting.

3) The Company has partially complied with Section 16-128(d), but should provide assurances that non-union personnel will be transferred to WESCO under the same terms and conditions of employment under which they are currently employed by IP.

Q. **Does this conclude your prepared direct testimony?**

A. Yes, it does.